

Top Secret

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NATIONAL INTELLIGENCE DAILY CABLE

Friday 17 February 1978

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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Friday, 17 February 1978.

The NID Cable is for the purpose of informing senior US officials.

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LEBANON: Situation Report

25X1 [redacted] Leaders of the Lebanese Christian community and Syrian leaders have apparently acted to calm the potentially serious situation that arose from the shooting deaths of two Syrian soldiers in the Christian section of Beirut on Wednesday. Christian leaders are reported to have agreed to assist in apprehending the suspected killers, and the Syrians have backed down from their threats to shell a Christian neighborhood. The situation remains tense [redacted]

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25X1 [redacted] Syrian Foreign Minister Khaddam has assured the US Embassy in Damascus that Syria will continue to exercise restraint in Lebanon and that Syria supports the Lebanese central government and does not demand the dissolution of the Lebanese Army as a consequence of last week's fighting.

25X1 [redacted] //The Syrian restraint was probably encouraged by statements to the press by Christian leaders Pierre Jumayyil and Camille Shamun condemning the killings and offering to assist in capturing the killers. [redacted]

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25X1 [redacted] The incident could provide an early test for the security court created earlier this week and staffed jointly by the Lebanese military and the Syrian-dominated peacekeeping force. The Syrians may insist that the suspects, if apprehended, be tried by the court--which has authority over incidents involving crimes against the peacekeeping force. Some Christians might resist such a demand in spite of their leaders' pledge to cooperate.


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EGYPT: Financial Outlook


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 Egypt's financial outlook has improved substantially during the last few months. Late last year, we estimated that Cairo's unfinanced payments gap would be roughly \$1 billion annually through 1979. We now believe that soaring private transfers and favorable oil production prospects could more than halve the gap over the next two years. Moreover, despite President Sadat's peace initiative, the Saudi-sponsored Gulf Organization for the Development of Egypt appears willing to provide substantial import financing.


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 In January, officials of the Gulf Organization assured the US firm responsible for disbursing the organization's funds that as much as \$1 billion in cash aid might be available this year to finance a select list of imports. The organization had agreed late in 1977 to make \$550 million in cash payments to Egypt, an abrupt about-face from its earlier intention to reserve remaining assets for project aid. Of the \$2 billion in new assets that member states--Saudi Arabia, Kuwait, Abu Dhabi, and Qatar--will provide this year, only about one-half will be for project aid.

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 The organization's softened attitude ironically comes at a time when Sadat's need for Arab assistance is lessening. Last year, unexpectedly large worker remittances from abroad left Egypt with a \$500 million surplus to apply to 1978 bills. This year, voluntary private transfers are expected to total \$1 billion--twice the amount projected six months ago.

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 Most of the increase is coming in through the black market that the government tolerates despite opposition from banking circles. Egyptian financial authorities realize a crackdown on black market operations would have to be accompanied by a devaluation of the exchange rate used by the banks for handling private remittances to avoid drying up the source of payments.

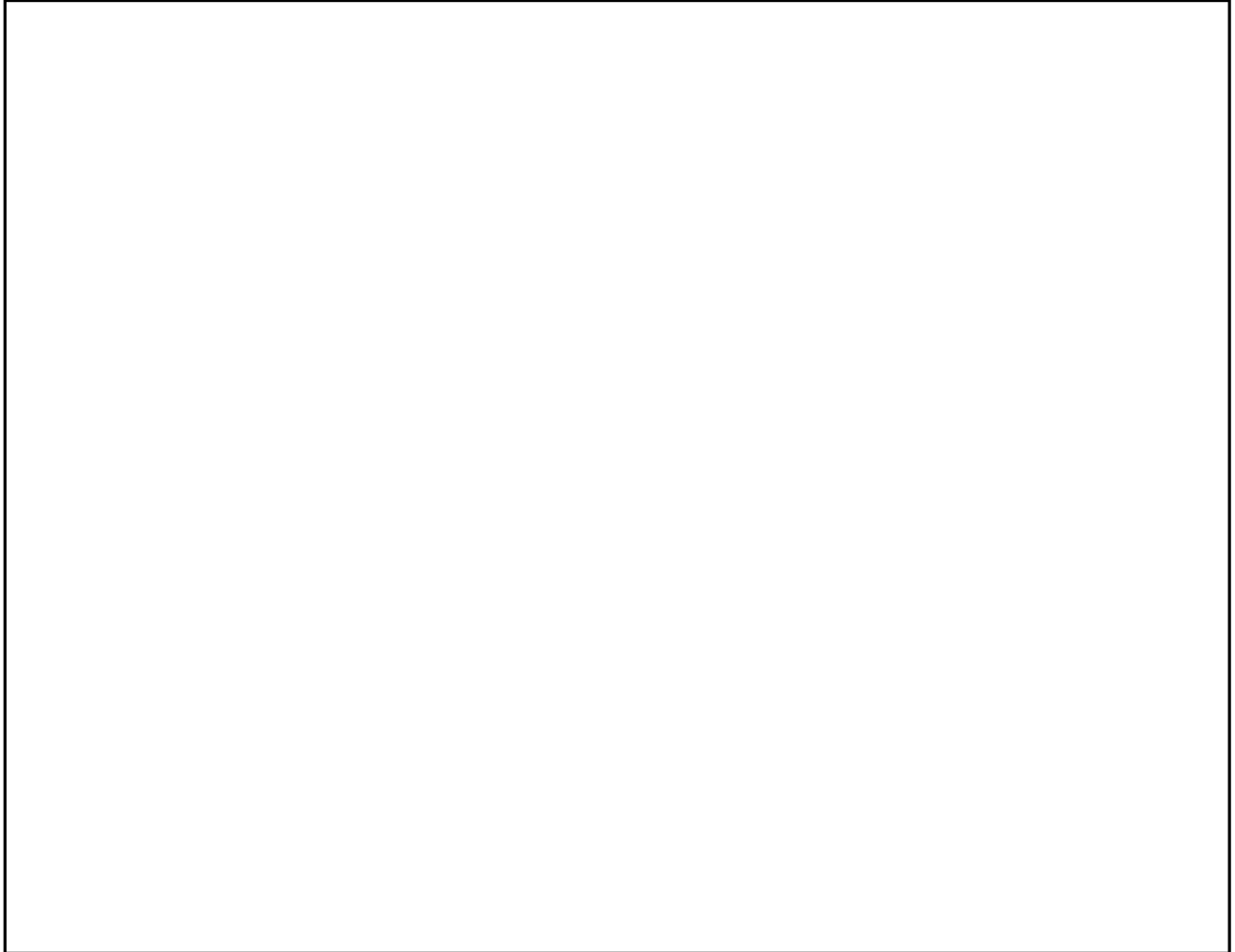
25X1 [] The ambitious \$500 million development bond drive currently under way is also boosting transfer payments. Banks in Egypt were the main subscribers to a similar \$200 million bond drive last year. The new drive, however, involves a stronger promotional effort outside the country, especially among expatriate Egyptians in Saudi Arabia. We expect that they will be important subscribers to this year's drive.

25X1 [] The Egyptian petroleum authority is excited about developments in the Southern Desert, an area adjacent to the Libyan border that Soviet technicians haphazardly explored before they were expelled. New seismic studies indicate geological structures similar to those in Libya, which could mean that Egypt has substantial oil reserves inland. The first well will be drilled this year.

25X1 [] With these increases in foreign exchange receipts, US approval of the Egyptian aid request for \$800 million would greatly reduce Cairo's need for Arab cash subsidies in 1978 and 1979. If private remittances remain high and the new oilfield in the Gulf of Suez comes into production quickly, the need for Arab cash subsidies could be eliminated. The remaining Arab financial string on Sadat's foreign policy initiatives then would be Saudi financing of Egyptian arms purchases. [] 25X1

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FRANCE: Franc Under Attack

25X1 [] //The Bank of France spent more than \$1 billion during the first two weeks of February to support the franc in foreign exchange markets, []

25X1 [] The support efforts, combined with various other measures, have stabilized the franc, at least temporarily, but political developments could cause a further weakening in the weeks ahead.//

25X1 [] //Uncertainty surrounding France's parliamentary election scheduled for mid-March contributed to a sharp run on the franc during the first week of February. The franc fell in value from 4.71 francs per dollar to 4.93 per dollar during this period. After some hesitation, the Bank of France responded by raising call money rates, limiting forward exchange operations, and temporarily closing its discount window. These moves put upward pressure on all interest rates and made short-run franc holdings more attractive. By 10 February the franc had stabilized at about 4.85 per dollar.//

25X1 [] //Some \$800 million of the central bank's intervention reportedly was financed from so-called hidden reserves--funds drawn from foreign borrowings of state enterprises. Official reports will show a reserve loss of only \$200 million during this period.//

25X1 [] //The government has pledged itself to defend the franc but apparently has mixed feelings. While it wants a strong franc to preserve French terms of trade and bolster national prestige, it might welcome depreciation as a sign that

the business community fears the financial impact of a leftist election victory. The government no doubt hopes undecided voters will interpret the weakness of the franc as a sign that a leftist win would bring economic instability.//

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[redacted] //The present period of stabilization may end as the election draws nearer. Businessmen and traders stand ready to sell francs should the likelihood of a leftist victory increase. [redacted]

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FRANCE: CSCE Concluding Document

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[redacted] //The French, on President Giscard's initiative, have circulated in Belgrade a draft of a concluding document for the CSCE review conference that may be aimed at drawing the USSR into serious negotiations about the future of detente in Europe. The move is intended to break a deadlock that resulted after the Soviets submitted a draft in mid-January. The French claim that neither a final document prepared primarily by the US nor one drawn up by the neutrals is likely to do this. The Europeans have rebuked the French for their go-it-alone approach, but most have indicated they will adopt a wait-and-see attitude if the French submit their document independently today.//

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[redacted] //France argues that the US wants to emphasize too much commitments on human rights and that the neutrals want to go too far in pressing the Soviets to make further commitments concerning military matters, such as the notification of military maneuvers. The French hold that the Soviets would reject both the neutrals' proposals and any reference to "shortcomings" in implementing the provisions on human rights contained in the Helsinki accord. They fear the Soviets would be happy if there were no concluding document or only a short communique which would assist Moscow's efforts to downgrade the importance of the security conference.//

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[redacted] //Both the NATO states and the neutral countries have reflected much of each other's concerns in their drafts. The French propose weaker language both concerning the Eastern side's observance of human rights and future military commitments. On human rights, they stress the importance of expanding

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human contacts and enhancing the role of the individual. On military issues, they recommend primarily a more generous interpretation of existing commitments.//

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[REDACTED] //The French may hope that their draft will aid them in consolidating their relationship with West Germany. The West Germans give much greater emphasis to expanding East-West contacts than to discussing the implementation of commitments on human rights.//

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[REDACTED] //In addition, Giscard may hope to reactivate France's role as Western Europe's chief interlocutor with the Soviets. The French President thought he had struck a bargain with Soviet President Brezhnev about detente in Europe when Brezhnev visited Paris in May. At that time, Giscard said France would consider reentering the international disarmament talks and claimed that Brezhnev committed himself to engage in a dialogue with the West on humanitarian issues.//

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[REDACTED] //The Western allies' reaction to the French move has been equivocal. The UK and Belgium, which are less worried about losing open channels to the East than states like West Germany, have maintained that the Soviets will accept relatively strong language concerning human rights. The Norwegians and the Turks, who share a border with the Soviets, have opposed the relaxed French position on military measures.//

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[REDACTED] //Despite their reservations about the substance of the French draft and the way in which it was presented, the EC members have been reluctant to display open disagreement with France. Their overall position is reflected in the view of the West German delegate who, despite professed reservations about the human contacts section of the French document, said he endorsed the suggestion that the French document be regarded as a "stalking horse" if the French present it at the plenary session today. The West Germans argue that if the East responds negatively to the independent French draft, the Western caucus could present a joint document next week.//

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[REDACTED] //The Soviets have insisted that they will make no concessions on human rights or military measures, and have argued that the two sides must accept that there is no basis for a compromise on the disputed issues. They backed up their position on Wednesday by withdrawing from the working group on human rights. [REDACTED]

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CANADA-JAPAN: Nuclear Agreement

25X1 [] //Both Canada and Japan believe they achieved important goals in the nuclear safeguards agreement they initialed last month. The Canadians are pleased that some provisions are even stronger than those included in the safeguards agreement reached by Canada and the EC in December. Japan won an assured long-term supply of uranium without backing down from its stand that it should not be subject to both Canadian and US safeguards on the same fuel.//

25X1 [] //Canada, which provides 70 percent of Japan's uranium, will immediately resume uranium shipments to Japan, embargoed for 13 months. Japan's stockpile of uranium, estimated to be a two-year supply, enabled it to prolong the negotiations until a satisfactory agreement could be reached.//

25X1 [] //The major stumbling block in the negotiations--Japan's refusal to be subject to two nations' safeguards agreements--was resolved when Canada agreed to allow the US to track Canadian-origin material that is enriched in the US. Japan also gained by reaching a permanent agreement. No limit, moreover, was imposed on the amount of uranium Japan can buy.//

25X1 [] //Canada, for its part, has furthered its nonproliferation objectives, averted a potentially serious irritant in bilateral relations, and pacified domestic uranium producers, who had feared losing a major customer. In addition, the Canadians now expect to negotiate a deal with Japan for the purchase of Canadian reactors sometime within the next two years. 25X1 []

CANADA: EC Summit Meeting

25X1 [] //The summit meeting between Canadian Prime Minister Trudeau and provincial first ministers ended Wednesday with no agreement on significant new policies to aid the sluggish economy. The country's serious regional conflicts were highlighted when Rene Levesque, the separatist-oriented Premier of Quebec, walked out of the meeting. The conference may nevertheless have improved Trudeau's image by drawing attention to

his attempt to involve provincial leaders in a program to address the country's economic problems. Trudeau had hoped a successful series of meetings would boost his party's chances in the national election expected later this year.//

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[] //Provincial ministers repeatedly called for less federal intervention in the provinces and voiced sharp criticism of federal policy, but Ottawa granted few concessions affecting its prerogatives.//

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[] //Announcements at the conclusion of the conference apparently signal Canada's intention to continue its conservative fiscal policies. Despite persistent high unemployment and scaled-down projections of economic growth this year, both federal and provincial ministers called for continued restraint in government spending.//

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[] //Even Quebec, normally a strong proponent of federal action to alleviate regional disparities, agreed that some limits on spending are necessary to avoid a resurgence of inflation, especially because wage and price controls are to be phased out beginning 15 April. Nearly all of the provincial ministers turned down Ottawa's proposal for cuts in provincial sales taxes to stimulate the economy and boost employment.//

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[] //Federal and provincial finance ministers did agree to meet again in November for further discussions on the economy. []

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AUSTRALIA: Uranium Exporting

25X1 [] //Australia's powerful labor federation has endorsed the mining and exporting of uranium ore and thus removed the major political constraint to implementation of Prime Minister Fraser's decision last August to lift a four-year ban on exports and to increase production.//

25X1 [] //The Australian Council of Trade Unions on Saturday endorsed production from existing and new mines on the condition that there would be measures that would adequately safeguard against the uranium being used in nuclear weapons. The decision was a victory for the council's President, Bob Hawke, over leftist ideologues. Hawke has argued that mining uranium ore, of which Australia has one-fifth of known global reserves, will provide jobs and that labor opposition was centered in leftist-led unions not involved in uranium production.//

25X1 [] //The recent flouting by railway and dock workers of their leftist leaders' bans on handling uranium shipments suggests a growing understanding among workers of the economic benefits of uranium production.//

25X1 [] //Although the public continues to have misgivings about contributing to nuclear proliferation, the government can probably make a convincing case that contracts with foreign buyers will contain strong safeguards over use of the uranium. Bureaucratic sluggishness and claims by Aborigines on lands where new mines may be opened could still delay Australia's becoming a major exporter. []

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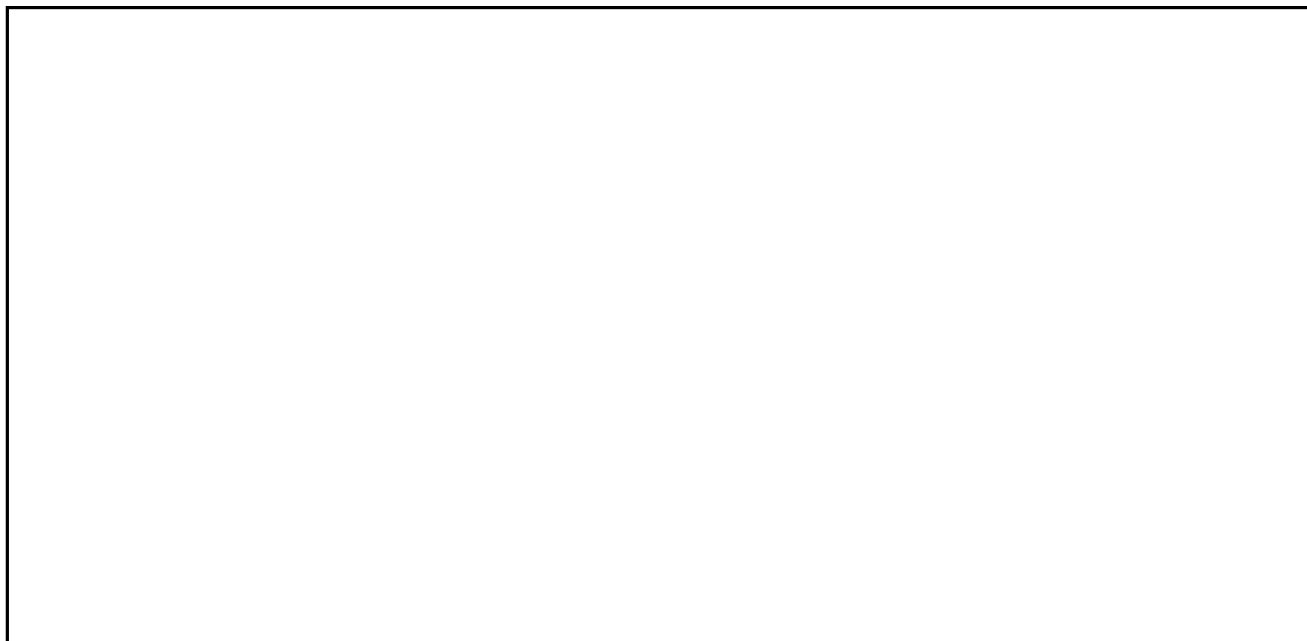
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Japan

25X1 [] //Japan announced this week that it will import only \$1 billion worth of emergency imports before a self-imposed deadline of 31 March, rather than the \$3 billion pledged in September 1977.//

25X1 [] //The government's September program called for accelerated imports of oil, grains, uranium, and some other commodities to cut into Japan's huge trade surplus. As early as December, most Japanese policymakers had already concluded privately that the plan could not be fulfilled. We believe it is unlikely that even the more modest goal will be achieved. Among other things, increases in oil imports--to be stored on idle tankers--will likely be delayed until May, in part because Tokyo has not yet arranged for berthing the tankers. []

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Finland

25X1 [] The Finnish Government announced yesterday that it will resign today because the Communists--one of the five coalition parties--refused to support the decision to devalue

the Finnish currency by 8 percent. The devaluation was prompted by the 13-percent devaluation in Norway--a major trade competitor.

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[redacted] Prime Minister Sorsa will probably offer adjustments to the existing national wage contract to protect his Social Democrat Party against Communist allegations that the devaluation is anti-labor. President Kekkonen has just been reelected, and the Finnish constitution requires him to form a new government after his inauguration on 1 March. He may ask the present government to remain in place for the interim.

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[redacted] The Communists, having made their point on the devaluation, are likely to agree to join the government when it is reformed. [redacted]

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